

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE SOUTH
SHORE WATER WORKS COMPANY

)
) CASE NO. 89-032

O R D E R

On February 10, 1989, South Shore Water Works Company ("South Shore") filed an application seeking approval of new rates to produce additional operating revenues of \$57,336 annually. South Shore amended its application on March 3, 1989 by revising upward its request for additional revenues from \$57,336 to \$69,022 annually. The application proposed using an 88 percent operating ratio for determining revenue requirements.

The Commission's Staff filed a Staff Report on June 30, 1989 recommending that revenue requirements be determined not by use of an operating ratio but, rather, based on a 1.2x debt service coverage ratio. Staff recommended that South Shore's interest and principal on long-term debt be amortized over an 18-year period. Utilizing this methodology, Staff recommended that South Shore's operating revenues be decreased by \$3,725.

South Shore filed a lengthy response to the Staff Report and requested a conference with the Staff. A settlement conference was held at the Commission's offices on August 9, 1989. South Shore presented supplemental information during the settlement

conference to demonstrate its need for increased revenues, based on a cash flow analysis.

South Shore and the Staff have submitted a proposed Settlement Agreement, dated August 28, 1989, recommending that South Shore's revenue requirement, excluding interest on existing debt, will be \$330,400 based on a 93.042 percent operating ratio. This revenue requirement will be met by South Shore's existing rates. The settlement agreement further proposes that South Shore's total debt of \$280,967, plus interest, will be recoverable by use of a \$2.44 surcharge collected monthly on each customer billing. The surcharge has been determined by amortizing the debt over a 6-year period. The surcharge will be included in South Shore's monthly minimum bill and will be subject to adjustment to reflect any variation in the interest rate on South Shore's bank loan.

Based on the evidence of record, and being advised, the Commission is of the opinion and hereby finds that the Settlement Agreement is reasonable, in the public interest, and will result in fair, just, and reasonable rates. Therefore, the Settlement Agreement should be adopted and approved. The Commission notes that, as provided for in the Settlement Agreement, South Shore is required to file quarterly statements with the Commission showing the monthly amounts of surcharge revenue collected, interest earned, and payments made on each loan. If these statements are not filed as required, or if South Shore should disburse any of the surcharge revenue for any purpose other than the payment of interest and principal on the debt, the Settlement Agreement provides that the surcharge will be discontinued.

IT IS THEREFORE ORDERED that:

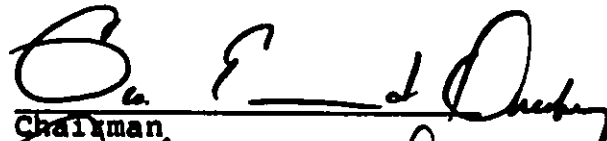
1. The Settlement Agreement, Appendix A attached hereto and incorporated herein, be and it hereby is approved and adopted.

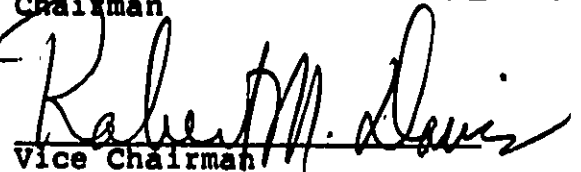
2. The rates set forth in Appendix B, attached hereto and incorporated herein, be and they hereby are approved for service rendered on and after September 1, 1989.

3. The rates proposed by South Shore be and they hereby are denied.

Done at Frankfort, Kentucky, this 31st day of August, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 89-032 DATED 8/31/89

In the Matter of:

AN ADJUSTMENT OF RATES OF THE SOUTH)
SHORE WATER WORKS COMPANY) CASE NO. 89-032

This Settlement Agreement is entered into this 28 day of August, 1989, by and between South Shore Water Works Company ("South Shore") of South Shore, Kentucky, and the Staff of the Public Service Commission ("PSC Staff").

WHEREAS, South Shore filed an application with the Public Service Commission on February 10, 1989 seeking authorization to increase its operating revenues by \$57,336 annually; and

WHEREAS, South Shore's application proposes the use of an 88 percent operating ratio for determining its revenue requirements; and

WHEREAS, South Shore filed a motion to amend its application on March 3, 1989 and requested to revise its proposed increase in operating revenues to \$69,022 annually; and

WHEREAS, PSC Staff filed a Staff Report on June 30, 1989 recommending that South Shore's operating revenues be decreased by \$3,725; and

WHEREAS, the Staff Report proposes that a 1.2x Debt Service Coverage Ratio with an 18-year amortization period be used in determining South Shore's revenue requirements; and

WHEREAS, on July 17, 1989, South Shore filed extensive comments in response to the recommendations contained in the Staff Report; and

WHEREAS, South Shore requested a hearing on its rate application but indicated its desire to settle all outstanding rate issues, if possible; and

WHEREAS, South Shore and PSC Staff met on August 9, 1989 to discuss their respective recommendations on revenue requirements.

NOW, THEREFORE, be it resolved that:

1. South Shore and PSC Staff mutually agree that all outstanding issues set forth in South Shore's rate application and the PSC Staff's Staff Report shall be resolved by this Settlement Agreement.

2. For rate-making purposes, South Shore's revenue requirement, excluding interest on existing debt, will be \$330,400 based on adjusted operating expenses of \$302,627 and the use of a 93.042 percent operating ratio, as set forth on Attachment A attached hereto.

3. South Shore's total debt of \$280,967, plus interest, will be recoverable for rate-making purposes by use of a \$2.44 surcharge collected monthly on each customer billing. The derivation of the surcharge amount is shown in Attachment A. The surcharge was calculated by using the interest rates as shown in Attachment A and a six-year amortization period. South Shore will be entitled to charge and collect the surcharge until the amount collected plus interest, if any, equals the total principal plus

interest as shown on Attachment A, subject to adjustment to reflect any variation in the interest rate on the long-term debt of \$237,667. This surcharge will be included in South Shore's monthly minimum bill for the first 1000 gallons of water consumed.

4. South Shore will send a written notice to each customer explaining the amount, duration, and purpose of the surcharge, and a copy of the notice will be posted for public inspection in its offices.

5. All revenues collected by South Shore by imposition of the monthly \$2.44 surcharge will be segregated from all other operating revenues, separately accounted for on its books, and disbursed only to its creditors for payment of interest and principal on the three existing loans shown on Attachment A.

6. South Shore agrees to pay all future operating and maintenance expenses from operating revenues not including the monthly \$2.44 surcharge. If at any time such operating revenues are insufficient to cover such expenses, South Shore acknowledges its obligation to timely file with the Public Service Commission an application for a rate increase, rather than borrow any funds.

7. South Shore agrees to file quarterly statements with the Public Service Commission detailing the amount of surcharge revenue collected per month; the amount of interest, if any, earned on the surcharge revenue; and the payments made on each of the existing loans shown on Attachment A. The dates for filing the quarterly statements with the Public Service Commission, and the time periods included in each statement, will be as follows:

Filing Date

December 31
March 31
June 30
September 30

Period Covered

September 1 - November 30
December 1 - February 28
March 1 - May 31
June 1 - August 31

8. The \$2.44 monthly surcharge agreed to herein will commence with billings rendered on and after September 1, 1989 and remain in effect until the occurrence of the earliest of the following events: a) the collection of total surcharge revenue, plus interest if any, in the amount necessary to satisfy the obligations set forth on Attachment A, including the interest thereon; b) South Shore's failure to file a quarterly statement as required by paragraph No. 7 above; or c) South Shore's disbursement of surcharge revenue for any purpose other than the payment of interest and principal on the loans shown in Attachment A.

9. This Settlement Agreement is subject to the acceptance of and approval by the Public Service Commission. In the event said Agreement is not accepted and approved by said Commission, said Agreement shall become null and void and South Shore and PSC Staff shall not be obligated or bound by any of the terms or provisions contained herein.

10. The making of this Settlement Agreement shall not be deemed in any respect to establish any principle or any precedent with respect to the prudence of any expenses or the validity of any rate-making methodology or formula.

AGREED TO:

Counsel for Bruce J. Clark
SOUTH SHORE WATER WORKS COMPANY

August 28, 1989
DATE

Richard B. Koff
PSC STAFF

August 25, 1989
DATE

ATTACHMENT A

ATTACHMENT TO SETTLEMENT AGREEMENT IN CASE NO. 89-032

93.042 Percent Operating Ratio

	302,627
	+ .93042
	<u>325,258</u>
Adj. Operating Expenses	<302,627>
Margin Exclusive of Taxes	<u>22,631</u>
Gross-Up Factor for Taxes	x 1.22722
Margin Inclusive of Taxes	<u>27,773</u>

Revenue Requirement:

Adj. Operating Expense	302,627
Margin Inclusive of Taxes	<u>27,773</u>
Revenue Requirement	<u>330,400</u>

Revenue Requirement:

Less: Adj. Operating Revenue	<320,827>
Adj. Other Income	<u><9,573></u>
Increase in Revenue	<u>\$ -0-</u>

Surcharge: 72 months

		<u>Per Month</u>
L-T Debt @ 9.5%	237,667	4,343
Debt for Filters @ 0%	33,300	463
Loan @ 13.5%	10,000	203
	<u>280,967</u>	<u>5,009</u> per month
		x 12
		<u>\$60,108</u> per year

\$5009 per month = \$2.44
2055 customers*

*As per 1989 Annual Report

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 89-032 DATED 8/31/89

The following rates and charges are prescribed for the customers in the area served by South Shore Water Works Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

First 1,000 gallons	\$4.11 Minimum Bill
Next 9,000 gallons	2.03 per 1,000 gallons
Next 20,000 gallons	1.70 per 1,000 gallons
Next 20,000 gallons	1.50 per 1,000 gallons
Over 50,000 gallons	1.11 per 1,000 gallons

Hydrant Charge	\$5.50
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Surcharge: A monthly surcharge of \$2.44 per customer shall remain in effect for a period of six years subject to adjustment as provided for by the Commission.